

ASX Grain Futures & Options

Derivatives Trading

- reducing your risk
- maximising your marketing opportunities

GRDC Grower Update – Southern Region

Moama

Wednesday 3rd August 2006



ASX
AUSTRALIAN STOCK EXCHANGE

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Agenda

- Trading futures
- Grain marketing is changing
- Role of ASX
- ASX Grain Futures - contracts
- Managing risk
- ASX Grain Options
 - Put Options (growers)
 - Call Options (consumers)

Trading futures

You already are.

- Some of you are using the market to your advantage and taking proactive steps to become a price maker.
- The Australian grain industry is changing rapidly, particularly the east coast. Grain is at an interesting time with a growing domestic market and an international market exploring the possibilities of bio-fuels.
- The world wide web has meant that global information is now at your fingertips.
- The irony is many are yet to realise the growing importance of the domestic market here in Australia.

What is the role of ASX?

- To provide a transparent pricing facility through which both price discovery and the transfer of price risk can occur.
- The ASX provides the tools, it does not have a pricing or market making role. The industry determines the prices that trade.
- The ASX Grain Futures contracts are significantly different to the previous contracts on the Sydney Futures Exchange.

www.asx.com.au/grainfutures

ASX Grain Futures Contracts

Track Market

- Australian **Sorghum** Brisbane / Newcastle
- Australian **Milling Wheat** Newcastle & Port Kembla
- Australian **Feed Wheat** Newcastle & Port Kembla
- Australian **Feed Barley** Geelong & Portland & NSW
- Australian **Canola** Geelong, Portland & Port Adelaide & NSW

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Your risk management market

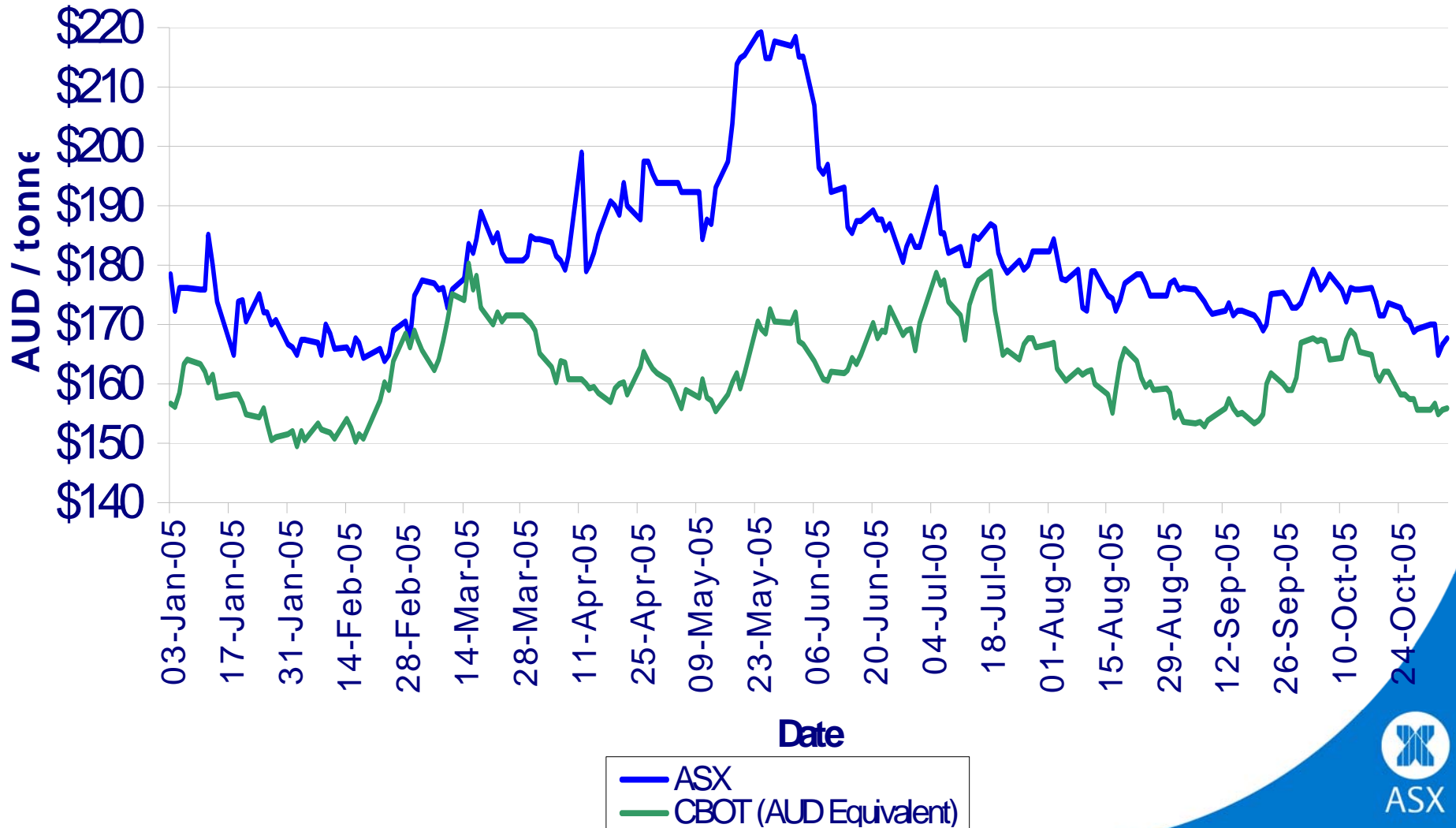
Feature	Benefit
Priced in AUD/tonne	No foreign exchange risk
Australian Clearing House – clears and settles all trades	Reduced counter party credit risk
Tradable Instruments	Physical delivery/consumption not necessary
Reflects Local Supply & Demand	Greater hedge correlation (reduced basis risk)
Planned Hedging	Greater time to decide

Greater Hedge Correlation

- Basis risk, the risk that the futures market does not behave in a manner similar to the physical market, is reduced the closer the futures market can match the physical.
- ASX is a domestic market that reflects local supply and demand.
- Basis risk is reduced, hedge correlation is improved.

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The weather impact on the domestic wheat price.
ASX January 06 Milling Wheat versus CBOT December 05 Wheat
(in Australian Dollars)



Greater Hedge Correlation

What does it mean?

- Harvest 2005 – Feed Barley prices fell out of bed.
- Growers without a hedge were left with an unpleasant decision to either;
 - sell at low prices,
 - pool at a time when the price outlook was not great,
 - or warehouse (on farm or S&H) and hope prices corrected.
- Growers with a hedge could have delivered against or sold physical and bought back hedge at a price that reflected the physical reality. Protection.

ASX Grain Options

- An Option is a contract between two parties giving the Buyer the right, **but not the obligation**, either to buy or to sell the underlying ASX Grain Future at a set price, on or before a predetermined date.
- Two types of option
 - Put – the right to sell the future
 - Call – the right to buy the future
- Like futures, options can be bought and sold. However, unlike futures, they have very different risk profiles.

Why use ASX Put Options?

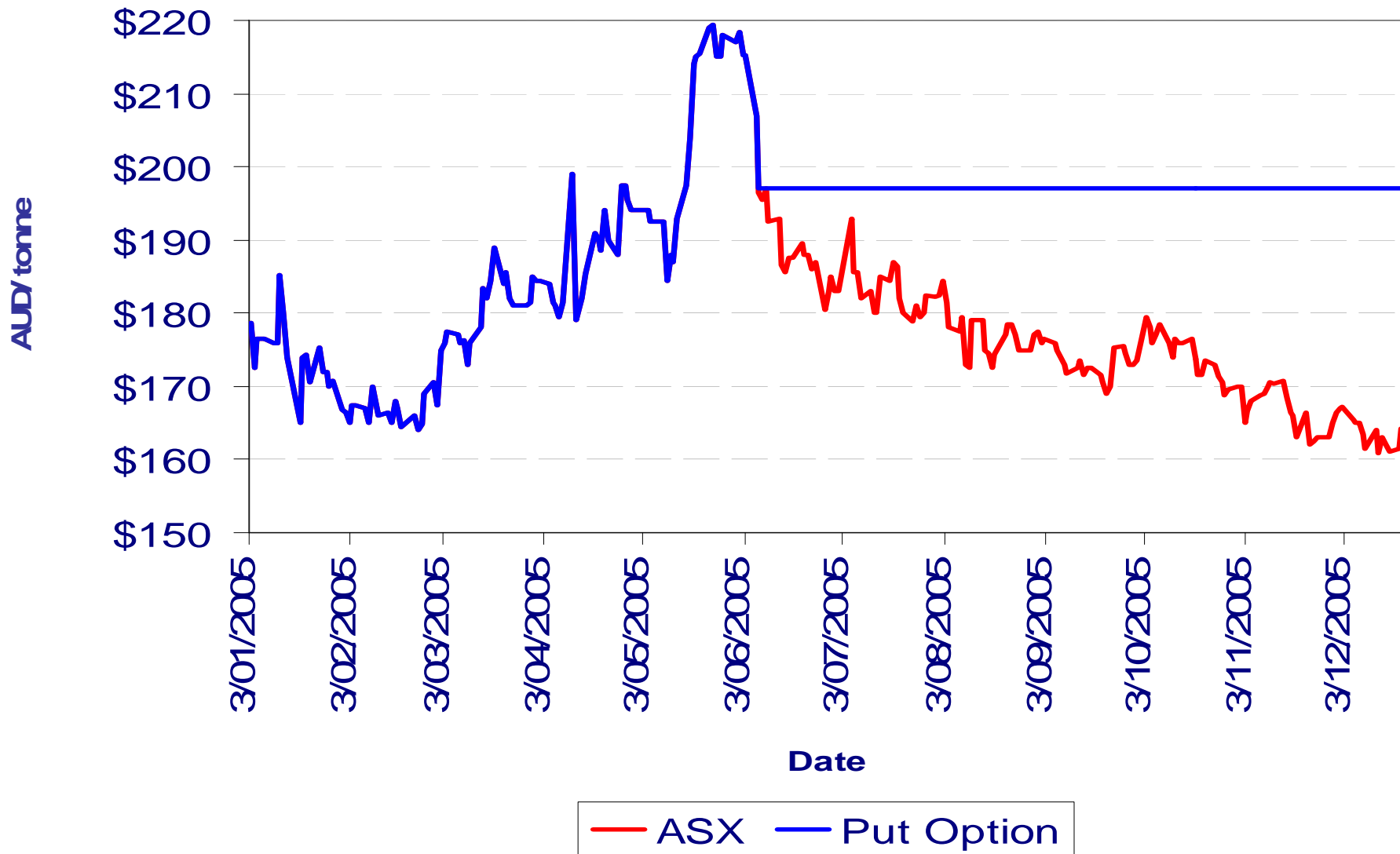
Key benefits for growers;

- Minimum price - protection from lower prices
- Able to enjoy upside in price should it occur
- Limited risk = premium
- Gives you time to decide on alternatives
- No production obligation, if there is no crop there is no obligation to deliver grain.
- May provide a physical market alternative.

Put Option

Jan 06 ASX Milling Wheat

\$215 Put purchased for \$18 = \$197 Floor



Why use ASX Call Options?

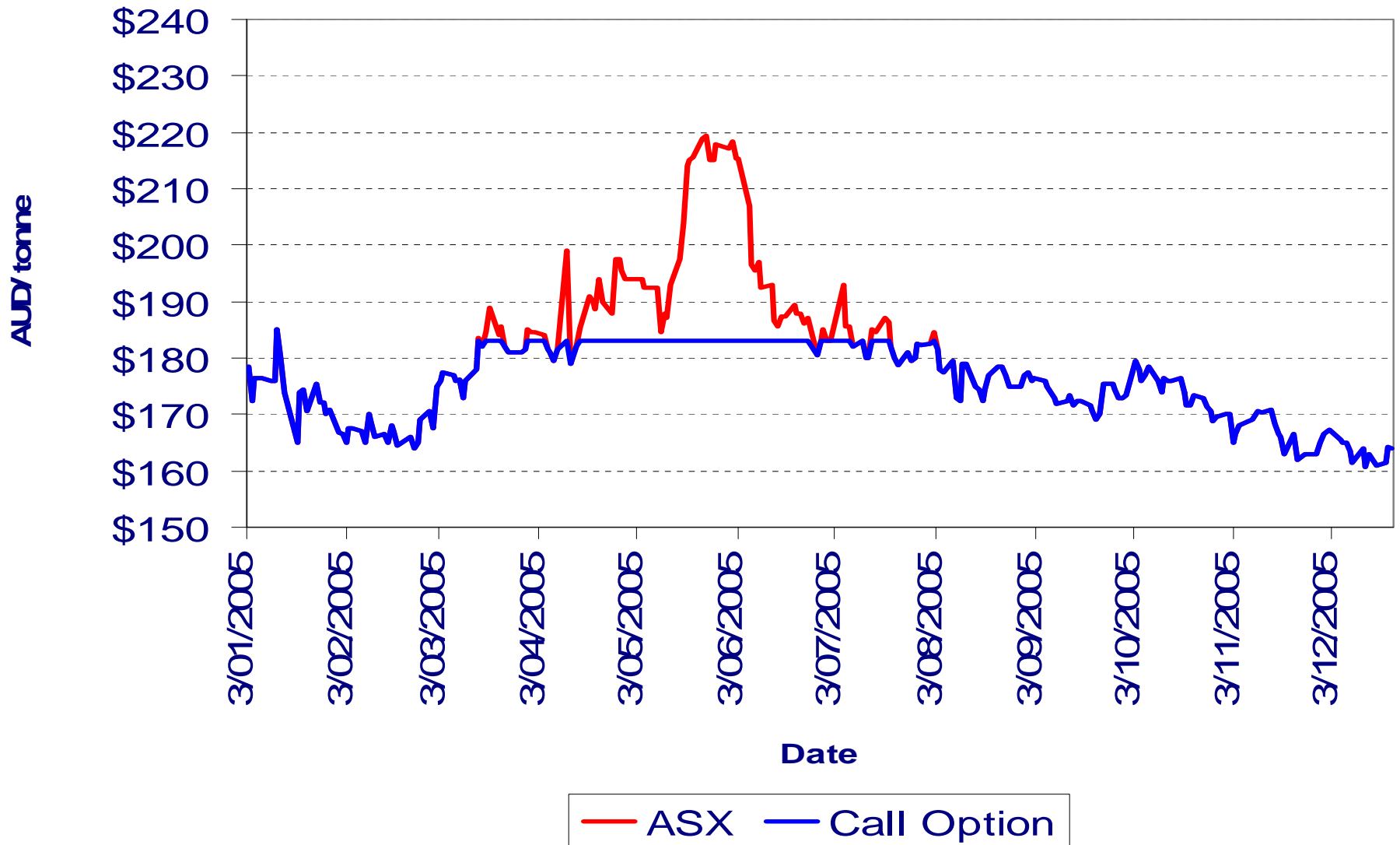
Key benefits for consumers;

- Maximum price - protection from high prices
- Able to enjoy downside in price should it occur
- Limited risk = premium
- Gives you time to decide on alternatives
- No consumption obligation, if rations change there is no obligation to take delivery.
- May provide a physical market alternative.

Call Option

Jan 06 ASX Milling Wheat

\$175 Call purchased for \$8 = \$183 Ceiling



Grain marketing solution #1

- **Not sure what the price for grain should be?**
- All ASX prices are freely available on the website
- The market can benefit from the price transparency provided by a domestic futures exchange
- If you are not sure how to make the comparison there are examples on the website that highlight the price structure.

Grain marketing solution #2

- **Need to sell grain now for cash flow reasons but believe there will be upside in the market**
- Sell physical grain and buy an ASX Call Option to participate in any upside that takes place.

Grain marketing solution #3

- **Harvest has finished, the grain is in warehouse and you are now looking out for the best price available.**
- Check where ASX is trading. ASX may be paying a greater value than other marketing alternatives.
- ASX is deliverable and will be delivered in the port zone of least value. Normally the port zone with excess supply.
- If you are in the least value zone, you may well find that cash prices are not as competitive because of that fact. ASX could well be trading at a premium.
- e.g. Last harvest – South Australian grower warehoused canola and sold ASX Jan 06 Futures and delivered against them because the ASX price was \$20 better than any physical cash bid.

Grain marketing solution #4

- Would like to take some protection but you are also keen to participate in any upside in the market.

- Buy an ASX Put Option

Take home message

- The lessons of price risk, counterparty credit risk, production risk, foreign exchange risk and basis risk have been experienced.
- ASX Grain Futures & Options are the tools to minimise these risks.
- Forward planning is imperative to achieve successful risk management.
- There have been opportunities on ASX for both growers and consumers. Future opportunities can only be enjoyed if preparation occurs and the market is embraced.
- Futures and options are not scary financial products.

www.asx.com.au/grainfutures

Further information

[**www.asx.com.au/grainfutures**](http://www.asx.com.au/grainfutures)

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